Magareng Local Municipality
(Registration number NC093)
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Magareng Municipality is a local municipality performing functions as set out in the Constitution, Act 105 of 1996.
Mayoral committee	
Mayor	Mr B Mhaleni
Councillors	Mr TE Mokola (Ward 1)
	Mr KG Freddie (Ward 2)
	Ms DJ Tshekedi (Ward 3)
	Mr AK Zalisa (Ward 4)
	Mr WJ Potgieter (Ward 5)
	Mr J Louw (P.R. Councillor DA)
	Mr TM Cross (P.R. Councillor EFF)
	Ms MA Mochane (P.R. Councillor EFF)
Grading of local authority	Category B as defined by the Municipal Structures Act, Act no. 117 of 1998
Accounting Officer	Ms EM Moncho
Chief Finance Officer (CFO)	Ms MM Motswaledi
Registered office	Magrieta Prinsloo Street Warrenton 8530
Business address	Magrieta Prinsloo Street Warrenton 8530
Postal address	PO Box 10 Warrenton 8530
Bankers	First National Bank a division of First Rand Bank Limited
Auditors	The Auditor-General of South Africa
Attorneys	Matthews and Partners
Member of Audit Committee	Mr WMS Calitz (Chairperson until 22 March 2019)
	Mr T Mogoli (Chairperson from 26 March 2019)
	Mr GR Botha
	Mr T Mudamburi

General Information

Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003)
	Division of Revenue Act
	The Income Tax Act (Act no. 58 of 1962)
	Value Added Tax Act (Act no 89 of 1991)
	Municipal Structures Act (Act no. 117 of 1998)
	Municipal Systems Act (Act no. 32 of 2000)
	Municipal Planning and Performance Management Regulations
	Housing Act (Act no. 107 of 1997)
	Skills Development Levies Act (Act no. 9 of 1999)
	Employment Equity Act (Act no. 55 of 1998)
	Unemployment Insurance Act (Act no. 30 of 1966)
	Basic Conditions of Employment Act (Act no. 75 of 1997)
	Supply Chain Management Regulations, 2005
	Disaster Management Act of 2016
	Spatial Planning and Land Use Management Act (Act 16 of 2013)
	Property Rates Act 6 of 2004

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
FMG	Finance Management Grant
IAS	International Accounting Standards
IDP	Integrated Development Plan
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
INEP	Integrated National Electrification Programme
NERSA	National Energy Regulator of South Africa
MSA	Municipal Systems Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SALGA	South African Local Government Association
SARS	South African Revenue Services

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. For detailed going concern assumptions refer to note 44.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors and their report is presented on page 6.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 6 to 92, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Ms EM Moncho
Municipal Manager

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Magareng municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 44 972 499 (2018: deficit R 17 345 351).

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 89 498 583 and that the municipality's total liabilities exceed its assets by R 89 498 583.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2020 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue it's operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 44.

3. Subsequent events

Matters arising since the end of the financial year have been disclosed on note 45.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Ms EM Moncho	South African	Appointed 01 July 2018

7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	170 716	556 930
Operating lease asset	4	10 378	17 291
Receivables from non-exchange transactions	5	7 230 577	11 566 278
VAT receivable	6	22 118 818	16 039 856
Receivables from exchange transactions	7	5 259 178	8 266 230
Cash and cash equivalents	8	325 970	3 887 003
		35 115 637	**40 333 588**
Non-Current Assets			
Investment property	9	24 485 600	23 518 519
Property, plant and equipment	10	234 796 402	240 973 556
Intangible assets	11	158 324	236 802
Heritage assets	12	370 999	370 999
		259 811 325	**265 099 876**
Total Assets		**294 926 962**	**305 433 464**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	179 033 427	143 455 942
Consumer deposits	14	923 770	900 478
Employee benefit obligation	15	510 000	424 000
Funds to be surrendered	16	10 173 478	12 150 699
		190 640 675	**156 931 119**
Non-Current Liabilities			
Employee benefit obligation	15	4 070 000	3 881 000
Provisions	17	10 717 704	10 150 262
		14 787 704	**14 031 262**
Total Liabilities		**205 428 379**	**170 962 381**
Net Assets		**89 498 583**	**134 471 083**
Accumulated surplus		89 498 583	134 471 083

* See Note 52 & 37

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	27 221 938	33 988 368
Interest earned - outstanding receivables		10 470 272	8 953 618
Licences and permits		259 221	368 098
Other income	19	259 342	402 175
Interest earned - external investments	20	368 594	635 838
Total revenue from exchange transactions		**38 579 367**	**44 348 097**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	7 595 086	7 444 856
Interest earned - outstanding receivables		2 591 442	2 167 452
Transfer revenue			
Government grants & subsidies	22	73 957 417	61 521 232
Donations in kind		1 588 137	6 611 613
Fines, Penalties and Forfeits		13 599 040	17 220 872
Total revenue from non-exchange transactions		**99 331 122**	**94 966 025**
Total revenue	23	**137 910 489**	**139 314 122**
Expenditure			
Employee related costs	24	(44 353 892)	(41 295 772)
Remuneration of councillors	25	(3 305 457)	(3 068 748)
Depreciation and amortisation	26	(11 012 856)	(13 784 672)
Impairment loss/ Reversal of impairments	27	(13 652 946)	(4 396 401)
Finance costs	28	(6 677 389)	(6 836 805)
Debt Impairment	29	(49 285 771)	(39 831 557)
Bulk purchases	30	(34 831 227)	(32 292 738)
General expenses	31	(15 565 677)	(14 878 027)
Total expenditure		**(178 685 215)**	**(156 384 720)**
Operating deficit		**(40 774 726)**	**(17 070 598)**
Loss on disposal of assets and liabilities		(5 183 903)	(1 148 086)
Fair value adjustments		967 081	928 886
Actuarial gains/losses	15	19 049	(55 553)
		(4 197 773)	**(274 753)**
Deficit for the year		**(44 972 499)**	**(17 345 351)**

* See Note 52 & 37

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	124 405 770	124 405 770
Adjustments		
Prior year adjustments	27 410 664	27 410 664
Balance at 01 July 2017 as restated*	**151 816 434**	**151 816 434**
Changes in net assets		
Restated Deficit for the year	(17 345 351)	(17 345 351)
Total changes	(17 345 351)	(17 345 351)
Restated* Balance at 01 July 2018	**134 471 082**	**134 471 082**
Changes in net assets		
Deficit for the year	(44 972 499)	(44 972 499)
Total changes	(44 972 499)	(44 972 499)
Balance at 30 June 2019	**89 498 583**	**89 498 583**

* See Note 52 & 37

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		8 216 334	16 716 979
Grants		71 980 196	64 717 771
Interest income		13 430 308	11 756 907
		93 626 838	93 191 657
Payments			
Employee costs		(47 365 300)	(44 083 072)
Suppliers		(19 650 977)	(21 592 507)
Finance costs		(6 677 389)	(6 836 805)
		(73 693 666)	(72 512 384)
Net cash flows from operating activities	33	**19 933 172**	**20 679 273**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(23 464 559)	(16 902 849)
Purchase of other intangible assets	11	(36 559)	-
Net cash flows from investing activities		**(23 501 118)**	**(16 902 849)**
Cash flows from financing activities			
Finance lease receipts		6 913	4 472
Net increase/(decrease) in cash and cash equivalents		**(3 561 033)**	**3 780 896**
Cash and cash equivalents at the beginning of the year		3 887 003	106 107
Cash and cash equivalents at the end of the year	8	**325 970**	**3 887 003**

* See Note 52 & 37

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	42 785 490	(809 967)	**41 975 523**	27 221 938	**(14 753 585)**	**Note 51, x1**
Rental of facilities and equipment	36 000	-	**36 000**	-	**(36 000)**	**Note 51, x2**
Interest received (trading)	9 770 092	-	**9 770 092**	10 470 272	**700 180**	**Note 51, x3**
Licences and permits	489 077	(489 077)	**-**	259 221	**259 221**	**Note 51, x4**
Other income	4 231 553	966 810	**5 198 363**	259 342	**(4 939 021)**	**Note 51, x6**
Interest received - investment	268 000	-	**268 000**	368 594	**100 594**	**Note 51, x7**
Total revenue from exchange transactions	**57 580 212**	**(332 234)**	**57 247 978**	**38 579 367**	**(18 668 611)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	9 418 052	-	**9 418 052**	7 595 086	**(1 822 966)**	**Note 51, x8**
Interest, Dividends and Rent on Land	-	-	**-**	2 591 442	**2 591 442**	
Transfer revenue						
Government grants & subsidies	77 578 000	(1 225 544)	**76 352 456**	73 957 417	**(2 395 039)**	**Note 51, x9**
Public contributions and donations	-	-	**-**	1 588 137	**1 588 137**	**Note 51, x10**
Fines, Penalties and Forfeits	2 205 000	5 000	**2 210 000**	13 599 040	**11 389 040**	**Note 51, x11**
Total revenue from non-exchange transactions	**89 201 052**	**(1 220 544)**	**87 980 508**	**99 331 122**	**11 350 614**	
Total revenue	**146 781 264**	**(1 552 778)**	**145 228 486**	**137 910 489**	**(7 317 997)**	
Expenditure						
Employee related costs	(42 411 534)	(6 916 565)	**(49 328 099)**	(44 353 892)	**4 974 207**	**Note 51, x12**
Remuneration of councillors	(3 398 461)	(50 148)	**(3 448 609)**	(3 305 457)	**143 152**	**Note 51, x13**
Depreciation and amortisation	(14 578 950)	14 578 950	**-**	(11 012 856)	**(11 012 856)**	**Note 51, x14**
Impairment loss/ Reversal of impairments	-	-	**-**	(13 652 946)	**(13 652 946)**	**Note 51, x15**
Finance costs	(252 500)	252 500	**-**	(6 677 389)	**(6 677 389)**	**Note 51, x16**
Debt Impairment	(27 440 513)	18 577 774	**(8 862 739)**	(49 285 771)	**(40 423 032)**	**Note 51, x17**
Repairs and maintenance	-	-	**-**	(1 021 606)	**(1 021 606)**	**Note 51, x18**
Bulk purchases	(38 544 939)	19 088 460	**(19 456 479)**	(34 831 227)	**(15 374 748)**	**Note 51, x19**
Contracted Services	(3 336 000)	(3 993 567)	**(7 329 567)**	-	**7 329 567**	**Note 51, x20**
General Expenses	(20 110 555)	(14 896 413)	**(35 006 968)**	(14 544 071)	**20 462 897**	**Note 51, x21**
Total expenditure	**(150 073 452)**	**26 640 991**	**(123 432 461)**	**(178 685 215)**	**(55 252 754)**	
Operating deficit	**(3 292 188)**	**25 088 213**	**21 796 025**	**(40 774 726)**	**(62 570 751)**	
Fair value adjustments	-	-	**-**	967 081	**967 081**	
Deficit before for the year	**(3 292 188)**	**25 088 213**	**21 796 025**	**(44 972 499)**	**(66 768 524)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(3 292 188)**	**25 088 213**	**21 796 025**	**(44 972 499)**	**(66 768 524)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	21 766	535 164	**556 930**	170 716	**(386 214)**	**Note 51, x22**
Operating lease asset	-	17 291	**17 291**	10 378	**(6 913)**	**Note 51, x23**
Receivables from non-exchange transactions	16 168 715	19 493 183	**35 661 898**	7 230 577	**(28 431 321)**	**Note 51, x24**
VAT receivable	-	-	**-**	22 118 818	**22 118 818**	**Note 51, x25**
Consumer debtors	88 957 651	-	**88 957 651**	5 259 178	**(83 698 473)**	**Note 51, x26**
Cash and cash equivalents	2 136 961	1 750 045	**3 887 006**	130 984 627	**127 097 621**	**Note 51, x27**
	107 285 093	**21 795 683**	**129 080 776**	**165 774 294**	**36 693 518**	
Non-Current Assets						
Investment property	8 890 803	-	**8 890 803**	24 485 600	**15 594 797**	**Note 51, x28**
Property, plant and equipment	107 560 447	162 357 356	**269 917 803**	234 796 402	**(35 121 401)**	**Note 51, x29**
Intangible assets	299 099	(61 614)	**237 485**	158 324	**(79 161)**	**Note 51, x30**
Heritage assets	370 999	-	**370 999**	370 999	**-**	**Note 51, x31**
	117 121 348	**162 295 742**	**279 417 090**	**259 811 325**	**(19 605 765)**	
Total Assets	**224 406 441**	**184 091 425**	**408 497 866**	**425 585 619**	**17 087 753**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	138 393 137	(53 922 981)	**84 470 156**	179 033 428	**94 563 272**	**Note 51, x32**
Consumer deposits	871 411	(289 929)	**581 482**	923 770	**342 288**	**Note 51, x33**
Employee benefit obligation	-	1 397 000	**1 397 000**	510 000	**(887 000)**	**Note 51, x34**
Provisions	1 545 000	3 362 525	**4 907 525**	-	**(4 907 525)**	**Note 51, x35**
Funds to be surrendered	-	-	**-**	10 173 478	**10 173 478**	**Note 51, x36**
	140 809 548	**(49 453 385)**	**91 356 163**	**321 299 333**	**229 943 170**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	4 070 000	**4 070 000**	**Note 51, x37**
Provisions	20 316 730	(285 796)	**20 030 934**	10 717 704	**(9 313 230)**	**Note 51, x38**
	20 316 730	**(285 796)**	**20 030 934**	**14 787 704**	**(5 243 230)**	
Total Liabilities	**161 126 278**	**(49 739 181)**	**111 387 097**	**336 087 037**	**224 699 940**	
Net Assets	**63 280 163**	**233 830 606**	**297 110 769**	**89 498 582**	**(207 612 187)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus		63 280 163	233 830 606	**297 110 769**	89 498 582	**(207 612 187)**

Magareng Local Municipality

(Registration number NC093)
Annual Financial Statements for the year ended 30 June 2019

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	9 418 052	-	9 418 052	-		9 418 052	7 595 086		(1 822 966)	81 %	81 %
Service charges	42 785 490	(809 967)	41 975 523	-		41 975 523	27 221 938		(14 753 585)	65 %	64 %
Investment revenue	268 000	-	268 000	-		268 000	368 594		100 594	138 %	138 %
Transfers recognised - operational	47 412 000	(1 225 544)	46 186 456	-		46 186 456	47 007 388		820 932	102 %	99 %
Other own revenue	16 731 722	482 733	17 214 455	-		17 214 455	28 165 447		10 950 992	164 %	168 %
Total revenue (excluding capital transfers and contributions)	**116 615 264**	**(1 552 778)**	**115 062 486**	**-**		**115 062 486**	**110 358 453**		**(4 704 033)**	**96 %**	**95 %**
Employee costs	(42 411 534)	(6 916 565)	(49 328 099)	-	-	(49 328 099)	(44 353 892)	-	4 974 207	90 %	105 %
Remuneration of councillors	(3 398 461)	(50 148)	(3 448 609)	-	-	(3 448 609)	(3 305 457)	-	143 152	96 %	97 %
Debt impairment	(27 440 513)	18 577 774	(8 862 739)			(8 862 739)	(49 285 771)	-	(40 423 032)	556 %	180 %
Depreciation and asset impairment	(14 578 951)	14 578 951	-			-	(24 665 802)	-	(24 665 802)	DIV/0 %	169 %
Finance charges	(252 500)	252 500	-	-	-	-	(6 677 389)	-	(6 677 389)	DIV/0 %	2 645 %
Materials and bulk purchases	(38 544 939)	19 088 460	(19 456 479)	-	-	(19 456 479)	(34 831 227)	-	(15 374 748)	179 %	90 %
Other expenditure	(23 446 555)	(18 889 980)	(42 336 535)	-	-	(42 336 535)	(20 749 580)	-	21 586 955	49 %	88 %
Total expenditure	**(150 073 453)**	**26 640 992**	**(123 432 461)**	**-**	**-**	**(123 432 461)**	**(183 869 118)**	**-**	**(60 436 657)**	**149 %**	**123 %**
Surplus/(Deficit)	**(33 458 189)**	**25 088 214**	**(8 369 975)**	**-**		**(8 369 975)**	**(73 510 665)**		**(65 140 690)**	**878 %**	**220 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	30 166 000	-	30 166 000	-		30 166 000	26 950 029		(3 215 971)	89 %	89 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1 588 137		1 588 137	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(3 292 189)**	**25 088 214**	**21 796 025**	**-**		**21 796 025**	**(44 972 499)**		**(66 768 524)**	**(206)%**	**1 366 %**
Surplus/(Deficit) for the year	**(3 292 189)**	**25 088 214**	**21 796 025**	**-**		**21 796 025**	**(44 972 499)**		**(66 768 524)**	**(206)%**	**1 366 %**

The accounting policies on pages 16 to 43 and the notes on pages 44 to 92 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to matuarity investments and/or loans receivables

The municipality assesses its trade receivables, held to matuarity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgement as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss rations are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the provisions and post retirement benefit assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

1.4 Investment property (continued)

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others (other than Investment Property), or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.5 Property, plant and equipment (continued)

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	10 - 30 years
Landfill sites	Straight line	15 years
Other assets	Straight line	4 - 7 years
Community assets	Straight line	20 - 30 years
Infrastructure	Straight line	5 - 90 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 34. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.7 Intangible assets (continued)

Subsequent measurement:

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	3 - 10 years

Derecognition:

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.8 Heritage assets (continued)

Initial measurement

A heritage asset that qualifies for the recognition as an asset is measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The heritage assets of the municipality shall not be depreciated but, the municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

For a transfer from investment property carried at fair value, on inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provision as contained in the Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

1.9 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- Cash and cash equivalents;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

1.9 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

1.9 Financial instruments (continued)

Unspent conditional grants and receipts	Financial liability measured at amortised cost
Funds to be surrendered	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Accounting Policies

1.9 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Accounting Policies

1.9 Financial instruments (continued)

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

1.14 Employee benefits (continued)

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

Accounting Policies

1.14 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

1.14 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes post employment medical aid as a minimum
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Accounting Policies

1.16 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable

Accounting Policies

1.16 Provisions and contingencies (continued)

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.17 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July.The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.18 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.25 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or mistatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.29 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% as from 1 April 2018 (2017: 14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

1.32 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 104 (revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government’s housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

The municipality expects to adopt the guideline for the first time in the 2018/2019 annual financial statements.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

The municipality expects to adopt the directive for the first time in the 2018/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2019

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

2. New standards and interpretations (continued)

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, Act No. 108 of 1996 (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised by preparers about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the landfill site and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land in a landfill, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, closure, end-use and monitoring, Other considerations, and Annexures with Terminology, Summary of guidance from other standard setters & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. This Guideline aims to assist entities in achieving the overall financial reporting objective. This Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting (“the Conceptual Framework”) and other relevant Standards of GRAP. This Guideline includes examples and case studies to illustrate how an entity may apply the principles in this Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, assessing whether information is material, applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Inventories

Water - at cost	51 748	51 256
Unsold properties held for resale	118 968	505 674
	170 716	**556 930**

Inventory pledged as security

No inventory was pledged as security for any financial liability at year-end.

4. Operating lease asset

Current assets	10 378	17 291

The Municipality as Lessor		
Opening balance	17 291	21 766
Movement during the year	(6 913)	(4 475)
	10 378	**17 291**

At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:

Up to 1 year	35 538	32 905
1 to 5 years	2 999	38 536
	38 537	**71 441**

This relates to a 9 years 11 months lease agreement with MTN as Lessee for land on which a cell phone tower was erected. This lease commenced in October 2010 and escalates at 8% per year.

This lease income was determined from contracts that have a specific conditional income and does not include lease income which has a undetermined conditional income.

The Municipality does not engage in any sub-lease arrangements.

The Municipality did not receive any contingent rent during the year.

5. Receivables from non-exchange transactions

Fines	2 639 427	7 915 544
Prepaid expense	500 000	505 000
Other receivables	1 874 377	1 059 463
Property rates	42 221 959	35 847 224
Less: impairment	(40 005 186)	(33 760 953)
	7 230 577	**11 566 278**

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. Debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Ageing of Receivables from non-exchange transactions:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Receivables from non-exchange transactions (continued)

Property rates: Ageing		
Current (0 - 30 days)	1 573 724	792 472
31 to 60 days	720 777	695 668
61 to 90 days	701 759	672 484
91 days +	39 225 699	33 686 600
Less impairment	(40 005 186)	(33 760 953)
	2 216 773	**2 086 271**

Reconciliation of provision for impairment of receivables from non-exchange transactions:		
Balance at the begining of the year	(45 398 159)	(28 105 334)
Contribution (to) / from allowance property rates	(4 090 549)	(3 809 787)
Contribution (to) / from the interest property rates	(2 153 684)	(1 845 832)
Contributions (to) / from allowance traffic fines	(16 522 580)	(11 637 206)
	(68 164 972)	**(45 398 159)**

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of receivables from non-exchange transactions

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not evaluated for impairment. At 30 June 2019, R 6 730 577 (2018: R 11 061 278) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 to 3 months past due property rates	2 216 773	2 086 271
1 to 3 months past due traffic fines	2 639 427	7 915 544
1 to 3 months past due other receivables	1 874 377	1 059 463

Receivables from non-exchange transactions impaired

As of 30 June 2019, receivables from non-exchange transactions of R 68 164 972 (2018: R 45 398 159) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	68 164 972	45 398 159

6. VAT receivable

Net Vat receivable	22 118 818	16 039 856

Vat is receivable on the cash basis.

All VAT returns for the period under review were submitted late.

Figures in Rand	2019	2018

7. Receivables from exchange transactions

	2019	2018
Gross balances		
Electricity	42 436 948	39 313 835
Water	56 531 166	47 098 381
Sewerage	42 940 570	36 194 250
Refuse	40 898 927	34 348 913
Sundry	1 844 916	1 733 834
	184 652 527	**158 689 213**
Less: Allowance for impairment		
Electricity	(38 854 976)	(32 505 387)
Water	(55 697 556)	(46 298 964)
Sewerage	(42 697 748)	(36 064 468)
Refuse	(40 729 113)	(34 224 460)
Sundry	(1 413 956)	(1 329 704)
	(179 393 349)	**(150 422 983)**
Net balance		
Electricity	3 581 972	6 808 448
Water	833 610	799 417
Sewerage	242 822	129 782
Refuse	169 814	124 453
Sundry	430 960	404 130
	5 259 178	**8 266 230**
Electricity		
Current (0 -30 days)	3 486 299	2 374 353
31 - 60 days	983 740	1 797 712
61 - 90 days	821 923	651 312
91 days +	37 144 986	34 490 458
Less: Impairment	(38 854 976)	(32 505 387)
	3 581 972	**6 808 448**
Water		
Current (0 -30 days)	2 135 605	1 252 952
31 - 60 days	972 500	811 117
61 - 90 days	913 968	802 031
91 days +	52 509 093	44 232 281
Less: Impairment	(55 697 556)	(46 298 964)
	833 610	**799 417**
Sewerage		
Current (0 -30 days)	1 240 041	514 315
31 - 60 days	635 388	498 630
61 - 90 days	591 989	491 469
91 days +	40 473 151	34 689 836
Less: Impairment	(42 697 747)	(36 064 468)
	242 822	**129 782**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. Receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	1 210 380	504 421
31 - 60 days	588 307	489 643
61 - 90 days	581 508	483 773
91 days +	38 518 732	32 871 076
Less: Impairment	(40 729 113)	(34 224 460)
	169 814	**124 453**

Sundry		
Current (0 -30 days)	37 299	371 124
31 - 60 days	15 290	75 363
61 - 90 days	44 678	13 043
91 days +	1 747 648	1 274 304
Less: Impairment	(1 413 955)	(1 329 704)
	430 960	**404 130**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(150 422 983)	(125 009 659)
Contributions to allowance	(28 970 366)	(25 413 324)
	(179 393 349)	**(150 422 983)**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Terms receivables from exchange transactions

Receivables from exchange transactions are payable within 30 days. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of receivables from exchange transactions on initial recognition is not deemed necessary.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 5 259 178 (2018: R 8 266 230) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5 259 178	8 266 230

Receivables from exchange transactions impaired

As of 30 June 2019, receivables from exchange transactions of R 179 393 349 (2018: R 150 422 983) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	179 393 349	150 422 983

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019	2018
Cash on hand	2 000	2 000
Bank balances	209 047	588 736
Short-term deposits	114 923	3 296 267
	325 970	**3 887 003**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating	2019	2018
F3	323 970	3 885 003

Cash and cash equivalents pledged as collateral

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
First National Bank - Current Account - 623124181075	209 047	588 736	93 050	209 047	588 736	93 050
First National Bank - 7 day Notice Account - 74629069896	2 698	1 248 764	11 057	2 698	1 248 764	11 057
First National Bank - 7 day Notice Account - 74713727011	437	1 932 578	-	437	1 932 578	-
First National Bank - 7 day Notice Account - 74713729611	29 846	114 925	-	29 846	114 925	-
First National Bank - 7 day Notice Account - 74772975073	95	-	-	95	-	-
First National Bank - 7 day Notice Account - 74772976443	282	-	-	282	-	-
First National Bank - 7 day Notice Account - 74774423492	81 252	-	-	81 252	-	-
First National Bank - 7 day Notice Account - 74772977011	313	-	-	313	-	-
Total	**323 970**	**3 885 003**	**104 107**	**323 970**	**3 885 003**	**104 107**

9. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	24 485 600	-	24 485 600	23 518 519	-	23 518 519

9. Investment property (continued)

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	23 518 519	967 081	24 485 600

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	22 589 633	928 886	23 518 519

	2019	2018
Fair value of investment properties	24 485 600	23 518 519

Pledged as security

There are no investment properties pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Deemed cost

Deemed cost was determined using fair value.

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	18 801 595	-	18 801 595	18 801 595	-	18 801 595
Buildings	8 700 698	(6 688 571)	2 012 127	11 605 352	(4 019 089)	7 586 263
Other Assets	10 907 678	(8 434 906)	2 472 772	10 809 095	(7 588 345)	3 220 750
Infrastructure	298 062 281	(132 414 914)	165 647 367	300 623 754	(116 515 551)	184 108 203
Community	5 129 825	(2 042 763)	3 087 062	7 546 701	(2 518 680)	5 028 021
Landfill sites	7 132 835	(6 228 808)	904 027	7 426 583	(5 031 033)	2 395 550
Work In progress	41 871 452	-	41 871 452	19 833 174	-	19 833 174
Total	**390 606 364**	**(155 809 962)**	**234 796 402**	**376 646 254**	**(135 672 698)**	**240 973 556**

Reconciliation of property, plant and equipment - 2019

	Opening balance	**Additions**	**Disposals**	**Other changes, movements**	**Depreciation**	**Impairment loss**	**Total**
Land	18 801 595	-	-	-	-	-	18 801 595
Buildings	7 586 263	-	(1 839 601)	-	(359 023)	(3 375 512)	2 012 127
Other assets	3 220 750	98 583	-	-	(846 561)	-	2 472 772
Infrastructure	184 108 203	1 327 698	(1 751 099)	-	(7 951 155)	(10 086 280)	165 647 367
Community	5 028 021	-	(1 206 498)	-	(543 306)	(191 155)	3 087 062
Landfill sites	2 395 550	-	-	(293 748)	(1 197 775)	-	904 027
Work in progress	19 833 174	22 038 278	-	-	-	-	41 871 452
	240 973 556	**23 464 559**	**(4 797 198)**	**(293 748)**	**(10 897 820)**	**(13 652 947)**	**234 796 402**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	18 801 595	-	-	-	-	-	18 801 595
Buildings	7 985 216	-	-	-	(398 953)	-	7 586 263
Other assets	4 277 675	105 114	(79 234)	-	(1 082 805)	-	3 220 750
Infrastructure	186 546 572	1 339 935	-	9 378 491	(8 764 163)	(4 392 632)	184 108 203
Community	5 460 998	-	(144 641)	-	(284 567)	(3 769)	5 028 021
Landfill sites	4 949 902	(79 401)	-	-	(2 474 951)	-	2 395 550
Work in progress	14 950 676	15 537 201	(1 276 212)	(9 378 491)	-	-	19 833 174
	242 972 634	**16 902 849**	**(1 500 087)**	**-**	**(13 005 439)**	**(4 396 401)**	**240 973 556**

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Other information

Property, plant and equipment fullly depreciated and still in use (Gross carrying amount)		
Infrastructure	76	79
Other assets	137	152
Community assets	15	16
Buildings	2	2
	230	**249**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Infrastructure under construction	Total
Opening balance	19 833 174	19 833 174
Additions	22 038 278	22 038 278
	41 871 452	**41 871 452**

Reconciliation of Work-in-Progress 2018

	Infrastructure under construction	Total
Opening balance	14 950 676	14 950 676
Under construction	15 537 201	15 537 201
Write off of wip due to terminated project	(1 276 212)	(1 276 212)
Transferred to completed items	(9 378 491)	(9 378 491)
	19 833 174	**19 833 174**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Inventory, spares and parts consumed	988 114	2 416 668

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Deemed cost was determined using depreciated replacement cost.

11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	885 244	(726 920)	158 324	848 685	(611 883)	236 802

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	236 802	36 559	(115 037)	158 324

Figures in Rand	2019	2018

11. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	299 099	(62 297)	236 802

Pledged as security

No intangible assets were pledged as security for any financial liability at year-end.

The following material intangible assets are included in the carrying value above

No intangible assets were assessed as having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no contractual commitments for the acquisition of intangible assets.

There are no intangible assets whose title is restricted.

12. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	370 999	-	370 999	370 999	-	370 999

Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	370 999	370 999

Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	370 999	370 999

Restrictions on heritage assets

There are no restrictions on the realisability of heritage assets or the remittance of revenue and proceeds of disposal.

Pledged as security

There are heritage assets pledged as security.

Deemed costs

Deemed cost was determined using depreciated replacement cost.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Payables from exchange transactions

Trade payables	163 326 717	130 790 680
Payments received in advance	2 857 904	2 242 455
Unknown deposits	2 281 300	249 162
Salary control	3 752 413	3 425 124
Retention creditor	1 974 468	1 436 288
Sundry creditors	251 920	824 315
Other Creditors	48 462	315 721
Accrued leave pay	3 368 490	3 037 525
Accrued staff bonus	1 171 753	1 134 672
	179 033 427	**143 455 942**

14. Consumer deposits

Electricity	785 938	762 646
Sale of land	130 322	130 322
Halls and facilities	7 510	7 510
	923 770	**900 478**

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(2 241 000)	(2 223 000)
Present value of the defined benefit obligation-partly or wholly funded	(2 339 000)	(2 082 000)
	(4 580 000)	**(4 305 000)**
Non-current liabilities	(4 070 000)	(3 881 000)
Current liabilities	(510 000)	(424 000)
	(4 580 000)	**(4 305 000)**

Employee benefits

Benefits

Post retirement	2 013 000	2 011 000
Long service awards	2 057 000	1 870 000
Total Non-current Employee Benefit Liabilities	**4 070 000**	**3 881 000**

Post retirement benefits		
Balance 1 July	2 223 000	1 971 000
Contribution for the year	-	-
Interest cost	210 000	193 000
Expenditure for the year	(220 057)	(190 825)
Actuarial (Gain)/Loss	28 057	249 825
Total post retirement benefit - 30 June	2 241 000	2 223 000
Less: Transfer to current portion	(228 000)	(212 000)
Balance 30 June	**2 013 000**	**2 011 000**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

Long service award		
Balance 1 July	2 082 000	1 997 000
Contribution for the year	222 000	219 000
Interest	206 000	208 000
Expenditure for the year	(123 894)	(147 727)
Actuarial (Gain)/Loss	(47 106)	(194 273)
Total long term service 30 June	2 339 000	2 082 000
Less: Transfer to current portion	(282 000)	(212 000)
Balance 30 June	**2 057 000**	**1 870 000**

Total non-current employee benefits		
Balance 1 July	4 305 000	3 968 000
Contribution for the year	222 000	219 000
Interest cost	416 000	401 000
Expenditure for the year	(343 950)	(338 553)
Actuarial (Gain)/Loss	(19 050)	55 553
Total Employee benefit 30 June	4 580 000	4 305 000
Less: Transfer to current portion	(510 000)	(424 000)
	4 070 000	**3 881 000**

Post Retirement Medical Aid Benefit

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Members		
In-service (employee) members	-	-
Continuation members (Pensioners)	6	6
	6	**6**

The liability in respect of past service has been estimated to be as follows:

Liability		
In-service (employee) members	-	-
Continuation members (Pensioners)	2 241 000	2 223 000
	2 241 000	**2 223 000**

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2017	2016	2015
In-service members	-	-	-
Continuation members	1 971 000	2 249 740	1 886 532
	1 971 000	**2 249 740**	**1 886 532**

Experience adjustments were calculated as follows:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas
LA Health
Samwumed
Keyhealth
Hosmed
Fed Health

Key actuarial assumptions used:

i) Rate of interest

	2019	2018
Discount rate	Yield Curve	Yield curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Health Care Cost Inflation Rate	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

” We used the nominal and real zero curves as at 28 June 2019 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal retirement age

It has been assumed that in-service members will retire at age 65, which then implicitly allows for expected rates of early and ill-health retirement.

Mortality rates

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

The amounts recognised in the Statement of Financial Position are as follows:

	2019	2018
Present value of fund obligation	2 241 000	2 223 000

Reconciliation of present value of fund obligation - 2019

	Opening Balance	Total expenses	Actuarial loss	Transfers	Closing balance
	2 223 000	210 000	28 057	(220 057)	2 241 000

Reconciliation of present value of fund obligation - 2018

	Opening Balance	Total expenses	Actuarial loss	Transfers	Closing balance
	1 971 000	193 000	249 825	(190 825)	2 223 000

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Total liability (Rm)
Valuation Assumptions		2 223 000
Health care inflation	+1%	2 407 000
Health care inflation	-1%	2 061 000
Mortality rate	+20%	2 047 000
Mortality rate	-20%	2 449 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

Assumption	Change	Current service cost	Interest Cost	Total
Valuation Assumption		-	210 000	210 000
Health care inflation	+1%	-	229 000	229 000
Health care inflation	-1%	-	194 000	194 000
Mortality rate	+20%	-	193 000	193 000
Mortality rate	-20%	-	233 000	233 000

Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

Total eligible

	2019	2018
As at year end, the following number of employees were eligible for long service bonuses.	145	151

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

Key actuarial assumptions used:

i) Rate of interest

Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
General Salary Inflation	CPI+1%	CPI+1%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	Yield Curve Based	Yield Curve Based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We use the nominal and real zero curves as at 29 June 2018 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2019 of 7.36%. The next salary increase was assumed to take place on 01 July 2020.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

The amounts recognised in the Statement of Financial Position are as follows:

	2019	2018
Present value of fund obligations	2 339 000	2 082 000

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2017	2016	2015
Total Liability	2 082 000	2 031 000	1 685 756

15. Employee benefit obligations (continued)

Experience adjustments were calculated as follows:

	2019	2018	2017	2016
Liabilities: (Gain) / loss	(47 106)	(194 273)	(424 754)	199 341

The municipality performed their first actuarial valuation on 30 June 2012. Thus there are no experience adjustment figures available on or before 30 June 2012 to fully comply with GRAP 25.

Reconciliation of present value of fund obligation - 2019

Opening balance	Total expenses	Actuarial gain	Transfers	Total
2 082 000	428 000	(47 106)	(123 894)	2 339 000

Reconciliation of present value of fund obligation - 2018

Opening balance	Total expenses	Actuarial gain	Transfers	Total
1 997 000	427 000	(194 273)	(147 727)	2 082 000

Sensitivity Analysis on the unfunded accrued liability:

Assumption	Change	Liability
Valuation assumptions		2 339 000
General salary inflation	+1%	2 503 000
General salary inflation	-1%	2 191 000
Withdrawal rate	+20%	2 222 000
Withdrawal rate	-20%	2 470 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

Assumption	Change	Current service cost	Interest cost	Total
Valuation Assumption		240 000	231 000	471 000
General salary inflation	+1%	260 000	248 000	508 000
General salary inflation	-1%	222 000	215 000	437 000
Withdrawal rate	+20%	222 000	218 000	440 000
Withdrawal rate	-20%	259 000	245 000	504 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

Retirement funds

The Municipality requested detailed employee and pensioner information as well as information on the Municipality’s share of the Pension and Retirement Funds’ assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality’s process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

Therefore, although the Consolidated Retirement Fund for Local Government is a Multi Employer fund defined as defined benefit plan, it will be accounted for as defined contribution plan. All the required disclosure has been made as defined in GRAP 25.31.

Consolidated Retirement Fund for Local Government

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2018 revealed that the fund is in a sound financial position with a funding level of 100.5% (30 June 2017 - 100.5%).

Contributions paid recognised in the Statement of Financial Performance	1 386 308	1 140 176

Defined contribution funds

Council contributes to the SALA Pension Fund, Municipal Councillors Pension Fund and Municipal Workers Retirement Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

SALA Pension Fund	1 617 532	1 587 025
Municipal Councillors Pension Fund	249 991	252 254
Municipal Workers Retirement Fund	1 753 444	1 669 071
	3 620 967	**3 508 350**

16. Funds to be surrendered

Carrying amount of funds to be surrendered

Opening balance	12 150 699	8 954 160
Transferred from unspent conditional grants	438 086	3 196 539
Withheld during the year	(2 415 307)	-
	10 173 478	**12 150 699**

Funds to be surrendered represents unspent conditional grants and receipts from National Treasury for which no rollover application has been submitted and / or approved at 30 June. Furthermore unspent conditional grants and receipts which are not cash backed as required are also transferred to this line item.

17. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	10 150 262	(293 748)	861 190	10 717 704

Reconciliation of provisions - 2018

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	9 512 730	(79 401)	716 933	10 150 262

Environmental rehabilitation provision

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

Warrenton	Cost of rehabilitation	Cost of rehabilitation
Estimated decommission date - 2020	10 717 704	10 150 262

Material Assumption used:

Area of landfill site consumed	2016	2017	2018	2019
Warrenton	60,97 %	40,37 %	99,99 %	99,99 %
Discount rate used	6,16 %	6,50 %	7,60 %	8,74 %

The discount rate used the calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. This rate used is also within the inflation target range of the South African Reserve Bank of between 3% to 6%.

The licence of the landfill site is currently issued to Frances Baard District Municipality and must still be transferred to Magareng Municipality.

18. Service charges

	2019	2018
Sale of electricity	11 834 455	20 101 215
Sale of water	6 963 346	7 559 118
Sewerage and sanitation charges	5 062 174	4 768 452
Refuse removal	4 849 047	4 567 464
Less: Indigent subsidies	(1 487 084)	(3 007 881)
	27 221 938	**33 988 368**

19. Other income

	2019	2018
Commonage	62 327	35 802
Burial fees	51 921	48 390
Valuation and clearance certificates	59 851	195 945
Sundry income	85 243	122 038
	259 342	**402 175**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. Investment revenue

Interest revenue		
Bank	368 594	635 838

21. Property rates

Rates received

Residential	4 862 974	4 832 731
Commercial	1 398 022	1 341 262
State	487 145	464 536
Other	846 945	806 327
	7 595 086	**7 444 856**

Valuations

Residential	158 768 000	428 715 710
Commercial	55 587 500	88 080 700
State	8 414 000	21 409 830
Municipal	1 661 100	4 733 800
Small holdings and farms	5 622 000	1 451 680 240
	230 052 600	**1 994 620 280**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis and are payable within 30 days. Interest at prime plus 1% per annum (2018:prime plus 1%) is levied on rates outstanding two months after due date.

22. Government grants and subsidies

Operating grants		
Equitable share	41 743 307	37 698 000
Finance Management Grant	1 898 081	1 900 000
Frances Baard District Municipality Operating Grant	1 752 777	4 100 000
Library Development Fund	613 223	1 092 000
Northern Cape Provincial Treasury Grant - AFS	-	1 118 769
Expanded Public Works Programme (EPWP)	1 000 000	1 000 000
	47 007 388	46 908 769
Capital grants		
Municipal Infrastructure Grant	11 028 199	7 000 000
Intergrated National Electrification Programme Grant	1 000 000	2 584 693
Frances Baard District Municipality Capital Grant	-	5 027 770
Regional Bulk Infrastructure Grant (RBIG)	9 951 220	-
Water Services Infrastructure Grant (WSIG)	4 970 610	-
	26 950 029	14 612 463
	73 957 417	**61 521 232**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Government grants and subsidies (continued)

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	32 214 110	23 823 232
Unconditional grants received	41 743 307	37 698 000
	73 957 417	**61 521 232**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Current-year receipts	41 743 307	37 698 000
Conditions met - transferred to revenue	(41 743 307)	(37 698 000)
	-	-

Finance Management Grant

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 898 081)	(1 900 000)
Transferred to Funds to be surrendered	(71 919)	-
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The Finance Management Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Frances Baard District Municipality Capital and Operating Grant

Current-year receipts	1 750 000	9 297 630
Conditions met - transferred to revenue	(1 750 000)	(9 127 770)
Raising a non-exchange receivable	-	(169 860)
	-	-

The Frances Baard Operational Grant is paid by Frances Baard District Municipality to the municipality to subsidise operational maintenance of infrastructure. Furthermore the Frances Baard District Municipality is co-funding certain infrastructure projects.

Library Development Fund

Current-year receipts	950 000	1 092 000
Conditions met - transferred to revenue	(613 223)	(1 092 000)
Transferred to Funds to be surrendered	(336 777)	-
	-	-

The Department of Sport, Arts & Culture grant was used for the development of libraries in the Magareng area.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Government grants and subsidies (continued)

Northern Cape Provincial Treasury Grant - AFS

Current-year receipts	-	1 900 000
Conditions met - transferred to revenue	-	(1 118 769)
Transferred to Funds to be surrendered	-	(781 231)
	-	-

Northern Cape Provincial Treasury provided the grant to assist the municipality in funding the compilation of GRAP compliant Annual Financial Statements and a Fixed Asset Register for the financial year ended 30 June 2018.

Expanded Public Works Programme

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

The EPWP grant was used or road infrastructure development in the Warrenton area.

Municipal Infrastructure Grant

Current-year receipts	11 028 199	7 000 000
Conditions met - transferred to revenue	(11 028 199)	(7 000 000)
	-	-

The Municipal Infrastructure Grant (MIG) is a conditional grant to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily benefiting poor households.

Intergrated National Electrification Programme

Current-year receipts	1 000 000	5 000 000
Conditions met - transferred to revenue	(1 000 000)	(2 584 693)
Transferred to funds to be surrendered	-	(2 415 307)
	-	-

The Intergrated National Electrification Programme Grant is a conditional grant provided the Department of Energy to assist municipalities with funding for the implementation of electrification projects.

Regional Bulk Infrastructure Grant

Current-year receipts	9 951 220	-
Conditions met - transferred to revenue	(9 951 220)	-
	-	-

The Regional Bulk Infrastructure Grant is conditional grant to supplement financing for the development of the regional bulk water infrastructure and regional bulk sanitation collection as well as regional water and waste water treatment works.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Government grants and subsidies (continued)

Water Services Infrastructure Grant (WSIG)

Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(4 970 610)	-
Transferred to Funds to be surrendered	(29 390)	-
	-	**-**

The Water Services Infrastructure Grant (WSIG) is a conditional grant to assist water services authorities to reduce water and sanitation backlogs.

23. Revenue

Service charges	27 221 938	33 988 368
Interest earned - outstanding receivables	10 470 272	8 953 618
Licences and permits	259 221	368 098
Other income	259 342	402 175
Interest earned - external investments	368 594	635 838
Property rates	7 595 086	7 444 856
Interest, Dividends and Rent on Land	2 591 442	2 167 452
Government grants & subsidies	73 957 417	61 521 232
Public contributions and donations	1 588 137	6 611 613
Fines, Penalties and Forfeits	13 599 040	17 220 872
	137 910 489	**139 314 122**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	27 221 938	33 988 368
Interest earned - outstanding receivables	10 470 272	8 953 618
Licences and permits	259 221	368 098
Other income	259 342	402 175
Interest earned - external investments	368 594	635 838
	38 579 367	**44 348 097**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7 595 086	7 444 856
Interest, Dividends and Rent on Land	2 591 442	2 167 452
Transfer revenue		
Government grants & subsidies	73 957 417	61 521 232
Public contributions and donations	1 588 137	6 611 613
Fines, Penalties and Forfeits	13 599 040	17 220 872
	99 331 122	**94 966 025**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

24. Employee related costs

Basic	29 769 556	27 085 295
Bonus	2 130 169	2 102 243
Medical aid - company contributions	1 847 348	1 715 911
UIF	291 555	282 842
SDL	358 154	335 466
Industrial council	14 901	14 083
Leave pay provision charge	540 841	645 977
Pension contributions	4 757 283	4 396 272
Travel, motor car, accommodation, subsistence and other allowances	824 212	617 015
Overtime payments	2 772 824	3 314 068
Long-service awards	222 000	219 000
Acting allowances	212 820	81 109
Housing benefits and allowances	402 031	305 025
Standby allowance	210 198	181 466
	44 353 892	**41 295 772**

Remuneration of municipal manager - EM Moncho

Annual Remuneration	603 930	-
Travel allowance	247 066	-
Housing allowance	152 204	-
Contributions to UIF, Medical and Pension Funds	11 331	-
	1 014 531	**-**

Remuneration of the Acting Municipal Manager - CD Lentsoe (1 June 2016 to 30 November 2017)

Acting Allowance	-	66 675

Remuneration of the Acting Municipal Manager - MM Monyamane Masuku (1 December 2017 to 30 June 2018)

Annual Remuneration	-	115 099
Contributions to UIF, Medical and Pension Funds	-	297
	-	**115 396**

Remuneration of the Chief Financial Officer - MM Motswaledi (Appointed 1 June 2017)

Annual Remuneration	592 328	520 712
Travel Allowance	293 382	165 907
Contributions to UIF, Medical and Pension Funds	135 248	126 754
	1 020 958	**813 373**

Remuneration of the HOD Corporate Services - CD Lentsoe (Appointed May 2012)

Annual Remuneration	584 220	571 200
Travel Allowance	98 977	94 876
Contributions to UIF, Medical and Pension Funds	158 082	148 505
	841 279	**814 581**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

24. Employee related costs (continued)

Remuneration of the HOD Technical Services - LM Mokoena (Appointed June 2012)

Annual Remuneration	295 626	548 808
Travel Allowance	60 587	182 862
Cellphone allowance	3 000	9 000
Contributions to UIF, Medical and Pension Funds	54 833	160 675
	414 046	**901 345**

25. Remuneration of councillors

Annual remuneration	3 305 457	3 068 748

Remuneration of the Mayor - Mr B Mhaleni (started August 2016)

Councillor salary	446 870	461 592
Medical aid contributions	38 251	-
Pension contributions	64 419	68 349
Travel allowance	189 330	178 922
Cellphon allowance	35 550	25 800
	774 420	**734 663**

In-kind benefits

The Mayor has the use of Council owned vehicles and a driver for official duties.

Councillor: J Louw (Started August 2016)

Councillor salary	181 416	219 331
Travel allowance	59 651	60 119
Cellphone allowance	39 150	29 400
	280 217	**308 850**

Councillor: WJ Potgieter (Started August 2016)

Councillor salary	202 239	216 170
Pension fund contributions	29 264	31 670
Travel allowance	76 553	68 458
Cellphone allowance	39 150	29 400
	347 206	**345 698**

Councillor: AK Zalisa (started June 2015)

Councillor salary	202 435	228 520
Pension fund contributions	29 264	33 374
Travel allowance	76 553	72 098
Cellphone allowance	39 150	29 400
	347 402	**363 392**

Figures in Rand	2019	2018

25. Remuneration of councillors (continued)

Councillor: JD Tshekedi (started August 2016)		
Councillor salary	200 494	234 233
Medical aid contributions	33 600	30 199
Pension fund contributions	28 970	34 082
Travel allowance	39 790	47 590
Cellphone allowance	39 150	29 400
	342 004	**375 504**

Councillor: KG Freddie (started August 2016)		
Councillor salary	204 220	228 296
Pension fund contributions	29 264	33 076
Travel allowance	76 553	72 098
Cellphone allowance	39 150	29 400
	349 187	**362 870**

Councillor: T Cross (started August 2016)		
Councillor salary	211 455	219 868
Pension fund contributions	30 405	31 970
Travel allowance	-	37 082
Cellphone allowance	39 150	29 400
	281 010	**318 320**

Councillor: S Petersen (started August 2016)		
Councillor salary	30 575	202 382
Travel allowance	9 942	56 180
Cellphone allowance	5 900	29 400
	46 417	**287 962**

Councillor: TE Mokola (started September 2017)		
Councillor salary	174 564	143 437
Medical aid contributions	33 600	20 244
Pension fund contributions	24 806	19 733
Travel allowance	75 239	54 407
Cellphone allowance	39 150	24 120
	347 359	**261 941**

Councillor: MA Mochane (started August 2018)		
Councillor salary	140 682	-
Pension fund contributions	13 598	-
Travel allowance	50 102	-
Cellphone allowance	33 250	-
	237 632	**-**

26. Depreciation and amortisation

Property, plant and equipment	10 897 819	13 722 375
Intangible assets	115 037	62 297
	11 012 856	**13 784 672**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Impairment loss/reversal of impairments

Impairments		
Property, plant and equipment	13 652 946	4 396 401

The recoverable amount of all assets were assessed at year end and it was found that certain assets had a a recoverable less that the carry value, therefore an impairment loss was raised.

28. Finance costs

Trade and other payables	5 400 199	6 435 805
Employee benefit liability	416 000	401 000
Landfill rehabilitation provision	861 190	-
	6 677 389	**6 836 805**

29. Debt impairment

Contributions to debt impairment provision	49 285 771	39 831 557

30. Bulk purchases

Electricity	19 446 725	18 234 229
Water	15 384 502	14 058 509
	34 831 227	**32 292 738**

31. General expenses

Advertising	107 469	63 456
Auditors fees	3 088 179	2 917 178
Bank charges	220 794	112 195
Cleaning	43 891	98 607
Commission paid	-	305 816
Legal fees	314 808	7 701
Consulting and professional fees	4 782 847	3 675 836
Entertainment	120 665	116 536
Insurance	278 085	296 316
Motor vehicle expenses	780 225	767 656
Medical expenses	27 692	-
Printing and stationery	293 345	181 009
Protective clothing	170 201	393 753
Inventory consumed	1 021 606	2 834 856
Security expenses	22 962	23 856
Subscriptions and membership fees	523 901	526 972
Telephone and fax	240 495	311 174
Training	40 206	-
Travel - local	1 159 152	605 378
Pauper burials	6 170	-
Communication	453 405	522 846
Skills development	393 300	-
Workmen's compensation fund	540 143	-
Chemicals	936 136	1 116 886
	15 565 677	**14 878 027**

32. Auditors' fees

Fees	3 088 179	2 917 178

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

33. Cash generated from operations

Deficit	(44 972 499)	(17 345 351)
Adjustments for:		
Depreciation and amortisation	11 012 856	13 784 672
Gain on sale of assets and liabilities	4 797 199	1 500 086
Fair value adjustments	(967 081)	(928 886)
Impairment deficit	13 652 946	4 396 401
Debt impairment	49 285 771	39 831 557
Movements in retirement benefit assets and liabilities	275 000	337 000
Movements in provisions	861 190	(79 401)
Changes in working capital:		
Inventories	386 214	292
Consumer debtors	(46 278 719)	(44 614 538)
Other receivables from non-exchange transactions	4 335 701	(5 087 928)
Payables from exchange transactions	35 577 485	25 504 692
VAT	(6 078 962)	152 670
Unspent conditional grants and receipts	(1 977 221)	3 196 544
Consumer deposits	23 292	31 463
	19 933 172	**20 679 273**

34. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	67 239 564	44 779 847
Total capital commitments		
Already contracted for but not provided for	67 239 564	44 779 847

Total commitments

Total commitments		
Authorised capital expenditure	67 239 564	44 779 847

This committed expenditure relates to property, plant and equipment and will be financed by government grants.

35. Contingent liability

2019:		
Neo Ikaneng vs Magareng Local Municipality The plaintiff is suing the municipality for unlawful prosecution, suspension, dismissal and defamation. The matter has been referred to the municipality lawyers and since the initial correspondence no further instruction has been received from the plaintiff.	5 000 000	5 000 000
2018:		
Neo Ikaneng vs Magareng Local Municipality The plaintiff is suing the municipality for unlawful prosecution, suspension, dismissal and defamation. The matter has been referred to the municipality lawyers and since the initial correspondence no further instruction has been received from the plaintiff.	5 000 000	5 000 000

36. Related parties

Relationships

Councillors	Mayor Part-time councillors
Accounting Officer	Municipal Manager
Members of key management	Chief financial officer HOD Corporate Services HOD Technical Services

Key management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

Related party transactions

2019: **Councillors**	Rates - Levied 1July 2018 - 30 June 2019	Service charges - Levied 1 July 2018 - 30 June 2019	Other - Levied 1 July 2018 - 30 June 2019	Outstanding balance
B Mhaleni	-	2 570	-	(4 546)
WJ Potgieter	4 124	16 980	-	1 610
AK Zalisa	2 464	2 868	45	2 578
J Louw	769	-	902	16 908
TE Cross	1 328	3 149	467	7 033
JD Tshekedi	699	1 415	1 028	17 182
KG Freddie	-	3 111	22	1 806
MA Mochane	3 705	4 843	8 132	139 352
	13 089	**34 936**	**10 596**	**181 923**

2019: **Municipal Manager and Section 57 Employees**	Rates - Levied 1July 2018 - 30 June 2019	Service charges - Levied 1 July 2018 - 30 June 2019	Other - Levied 1 July 2018 - 30 June 2019	Outstanding balance
CD Lentsoe	4 264	9 459	27	(668)

2018: **Councillors**	Rates - Levied 1July 2017 - 30 June 2018	Service charges - Levied 1 July 2017 - 30 June 2018	Other - Levied 1 July 2017 - 30 June 2018	Outstanding balance
WJ Potgieter (100894)	3 918	-	-	326
WJ Potgieter (100899)	-	16 365	-	1 351
AK Zalisa	2 457	(11 019)	(2 597)	7 885
J Louw	-	3 535	235	4 610
SS Perterson	-	3 622	1 434	21 858
TE Crosss	1 262	2 991	315	4 916
JD Tshekedi	819	2 285	-	17 128
B Mhlaleni	-	2 420	-	(7)
KG Freddie	-	2 824	3	(317)
	8 456	**23 023**	**(610)**	**57 750**

Figures in Rand	2019	2018

36. Related parties (continued)

Municipal Manager and Section 57 Employees	Rates - Levied 1July 2017 - 30 June 2018	Service charges - Levied 1 July 2017 - 30 June 2018	Other - Levied 1 July 2017 - 30 June 2018	Outstanding balance
CD Lentsoe	4 050	13 297	-	663

37. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

37.1. Prior period error - Understatement of payables from exchange transactions

During the period under review it was noted that salary control balance was overstated as PRMA adjustment for 2016/2017 was not reversed in 2017/2018 year, commission adjustment for 3rd parties not taken into account and SARS interest & penalties not recorded correctly. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

The correction of the error(s) results in adjustments as follows:

	2019	2018
Statement of financial position		
Decrease in payables from exchange transactions		112 714
Increase in opening accumulated surplus or deficit		(167 366)
Statement of Financial Performance		
Increase in finance costs		61 989
Increase in other income		(7 337)

37.2. Prior period error - Understatement of payables from exchange transactions

During the period under review it was noted that trade creditors were understated as certain year end creditors were not recorded. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2019	2018
Statement of financial position		
Increase in payables from exchange transactions		(1 274 066)
Increase in receivables from non-exchange transactions	-	505 000
Increase in VAT receivable		147 541
Decrease in opening accumulated surplus or deficit		274 328
Statement of Financial Performance		
Increase in general expenses		61 667
Increase in contracted services		285 531

37.3. Prior period error - Overstatement of employee benefit obligations:

During the period under review it was noted that Post retirement medical provision was overstated as employees still in service were included in the calculation of the provision. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

The correction of the error(s) results in adjustments as follows:

	2019	2018
Statement of financial position		
Decrease in employee benefit obligation		7 708 000
Increase in opening accumulated surplus or deficit		(8 381 000)

37. Prior period errors (continued)

Statement of Financial Performance	
Decrease in finance costs	(878 000)
Decrease in employee in related costs	(514 000)
Decrease in acturial gains	2 065 000

37.4. Prior period error - Understatement of receivables from non-exchange transactions (traffic fines):

During the period under review it was noted that traffic fine receivables were understated at 30 June 2017 and 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in receivables from non-exchange transactions	4 638 354
Increase in opening accumulated surplus or deficit	(4 537 405)
Statement of Financial Performance	
Increase in Fines, Penalties and Forfeits	(100 949)

37.5. Prior period error - Understatement of revenue due to receipting file not being uploaded

During the period under review it was that sundry revenue for the 21st of June 2018 was uploaded in to the incorrect financial year. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in VAT receivable	(1 628)
Decrease in other receivables from non-exchange transactions	12 484
Statement of Financial Performance	
Increase in service charges	(10 856)

37.6. Prior period error - Misstatements of Property, Plant and Equipment, Investment Property and Intangible assets

During the period under review it was noted that various components of property, plant and equipment, investment property and intangible assets were misstated at 30 June 2017 and 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase property plant and equipment infrastructure assets	961 972
Decrease property plant and equipment community assets	26
Increase property plant and equipment other assets	(356)
Decrease intangible assets	(683)
Increase investment property	14 627 715
Increase in opening accumulated surplus or deficit	(14 599 221)

Figures in Rand	2019	2018

37. Prior period errors (continued)

Statement of Financial Performance	
Decrease depreciation and amortisation	(60 568)
Increase fair value adjustments	(928 886)

37.7. Prior period error - Prior period error - Capital work in progress creditor not recognised

During the period under review it was noted that a creditor for a capital project still in progress at 30 JUne 2018 was not recognised at 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase property plant and equipment work in progress	260 111
Increase in payables from exchange transactions	(299 128)
Increase in vat receivable	39 017

37.8. Prior period error - Correction of commitments

During the period under review it was noted that commitments were incorrectly stated. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Disclosure notes - Commitments	
As previosly reported	42 025 638
Correction of error	2 754 209
Restated	44 779 847

37.9. Prior period error - Correction of financial instruments

During the period under review it was noted that financial instruments were incorrectly stated. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Disclosure notes - Financial intruments	
As previously reorted	169 438 114
Correction of error	- 10 489 388
Restated	180 226 630

37.9. Prior period error - Correction of additional disclosure in terems of MFMA

During the period under review it was noted that PAYE and UIF disclosure was incorrectly stated. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Disclosure notes - PAYE and UIF	
As previously reported	1 210 469
Correction of error	64 155
Restated	1 274 624

38. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that in the prior year account balances and totals were mistated due to a missmapping of various general ledger accounts. The error has since been rectified in the current year.

The effects of the reclassification are as follows:

38. Comparative figures (continued)

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Receivable from exchange transactions	8 751 999	(485 769)	8 266 230
Receivable from non-exchange transactions	10 575 509	485 769	11 061 278
Total	**19 327 508**	**-**	**19 327 508**

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Interest earned - outsatanding receivables - Revenue from exchange transactions	11 121 069	(2 167 451)	8 953 618
Interest earned - outsatanding receivables - Revenue from non-exchange transactions	-	2 167 451	2 167 451
Contracted services	4 182 388	(4 182 388)	-
General expenses	10 695 939	4 182 388	14 878 327
Services charges	33 989 894	(1 526)	33 988 368
Licenses and permits	357 244	10 854	368 098
Other income	412 469	(10 631)	401 838
Fines, penalties and forfeits	17 219 569	1 303	17 220 872
Total	**77 978 572**	**-**	**77 978 572**

39. Unauthorised expenditure

Opening balance	107 975 911	77 442 536
Current year - capital	69 543 240	30 533 375
	177 519 151	**107 975 911**

40. Fruitless and wasteful expenditure

Opening balance	19 482 299	11 494 719
Current year	5 400 199	7 987 580
Condonement by council	-	-
Fruitless and wasteful expenditure awaiting further action	**24 882 498**	**19 482 299**

Details of fruitless and wasteful expenditure - current year

Disciplinary steps taken/criminal proceedings	Disciplinary steps taken/criminal proceedings	
Interest on late payments - suppleirs	Awaiting Council decision	4 820 986
Interest and penalties on late payment - SARS	Awaiting Council decision	579 213
		5 400 199

Details of fruitless and wasteful expenditure- prior year

Disciplinary steps taken/criminal proceedings	Disciplinary steps taken/criminal proceedings	
Interest on late payments - suppleirs	Awaiting Council decision	6 354 963
Interest and penalties on late payment - SARS	Awaiting Council decision	356 405
WIP Project written off	Awaiting council decision	1 276 212
		7 987 580

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Irregular expenditure

	2019	2018
Opening balance	51 097 840	37 967 992
Add: Irregular Expenditure - current year	8 462 741	13 129 848
Less: Amounts condoned	-	-
	59 560 581	**51 097 840**

Details of irregular expenditure – current year

Condoned by (condoning authority)	**Disciplinary steps taken/criminal proceedings**	
Various contravention of procument transcripts	Awaiting council decision	8 462 741

Details of irregular expenditure - prior year

Condoned by (condoning authority)	**Condoned by (condoning authority)**	
Various contravention of procument transcripts	Awaiting council decision	13 129 848

Irregular expenditure is overstated due to the inclusion of VAT in amount reported.

42. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Consumer deposits	923 770	-	-	-
Employee benefit obligation	510 000	-	-	-
Payables from exchange transactions	179 033 427	-	-	-
Funds to be surrendered	10 173 478	-	-	-

At 30 June 2018	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Consumer deposits	900 478	-	-	-
Employee benefit obligation	424 000	-	-	-
Payables from exchange transactions	143 455 942	-	-	-
Funds to be surrendered	12 150 699	-	-	-

42. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 5 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 5 and 7 for balances included in receivables that were re-negotiated for the period under review.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, and therefore it is not exposed to interest rate risk

Foreign exchange risk

The municipality does not engage in foreign exchange transactions.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

Figures in Rand	2019	2018

43. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	7 230 577	7 230 577
Receivables from exchange transactions	5 259 178	5 259 178
Cash and cash equivalents	325 970	325 970
	12 815 725	**12 815 725**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	179 033 427	179 033 427
Consumer deposits	923 770	923 770
Funds to be surrendered	10 173 478	10 173 478
	190 130 675	**190 130 675**

2018

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	11 566 278	11 566 278
Receivables from exchange transactions	8 266 230	8 266 230
Cash and cash equivalents	3 887 003	3 887 003
	23 719 511	**23 719 511**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	143 455 942	143 455 942
Consumer deposits	900 478	900 478
Funds to be surrendered	12 150 699	12 150 699
	156 507 119	**156 507 119**

44. Going concern

We draw attention to the fact that at 30 June 2019, a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1. The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.

2. Funds to be surrendered are not fully cash backed as required.

3. The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.

4. The consumer debtors days outstanding increased to 1519 days from (2018: 564 days).

Figures in Rand	2019	2018

44. Going concern (continued)

5. Electricity distribution losses (technical and non-technical) have increased to 30% (2018:15%) and the water distribution losses has increased to 88% from (2018: 40%).

6. The municipality's current liabilities exceeds it's current assets by R 155 525 038 (2018: R 116 597 531) which indicates a current ratio which is below the required norm of 1.5 - 2.

7. The municipality incurred a net deficit for the year under review of R 44 972 499 (2018: deficit R 17 345 351), the major contributors to this change is increases impairments, finance costs, employee related costs.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

45. Events after the reporting date

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

46. In-kind donations and assistance

The municipality received in-kind donations or assistance during the period under review relating to payments made to Auditor General by Northern Cape Provincial Treasury.

47. Private Public Partnerships

Council has not entered into any private public partnerships during the financial year.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	474 572	515 500
Current year subscription / fee	517 205	519 072
Amount paid - current year	(420 000)	(44 500)
Amount paid - previous years	-	(515 500)
	571 777	**474 572**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses

Electricity distribution losses (kWh)		
Purchased	14 570 899	14 291 710
Sold	(10 131 526)	(12 149 652)
kWh Losses	**4 439 373**	**2 142 058**
% losses	30%	15%
Average cost per kWh unit	1,51	1,41
Losses in Rand value	6 703 454	3 012 442

Water distribution losses (kilolitres)		
Purchased	4 091 352	4 126 478
Sold	(495 254)	(2 467 097)
Kilolitre losses	**3 596 098**	**1 659 381**
% losses	88%	40%
Average cost per kilolitre	4,32	3,89
Losses in Rand value	15 535 143	6 454 098

Audit fees

Opening balance	80 382	4 383 125
Current year subscription / fee	3 562 992	3 662 875
Amount paid - current year	(2 129 301)	(3 582 493)
Amount paid - previous years	(80 382)	(4 383 125)
	1 433 691	**80 382**

PAYE and UIF

Opening balance	1 274 624	344 926
Current year subscription / fee	6 105 713	5 320 249
Amount paid - current year	(4 758 074)	(4 045 625)
Amount paid - previous years	(1 274 624)	(344 926)
	1 347 639	**1 274 624**

Pension and Medical Aid Deductions

Opening balance	1 852 655	1 297 036
Current year subscription / fee	10 710 573	9 861 012
Amount paid - current year	(8 565 600)	(8 008 357)
Amount paid - previous years	(1 857 078)	(1 297 036)
	2 140 550	**1 852 655**

Figures in Rand	2019	2018

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

	2019	2018
VAT receivable	22 118 818	16 039 856
VAT payable	-	-
	22 118 818	**16 039 856**

In accordance with the VAT act, the municipality is required to submit vat returns on the 25th day following the vat period, however through inspection of the vat returns it was noted that the following vat returns were not submitted when they were due

- Vat period: June/July 2018
- Vat period: August/September 2018
- Vat period: October/November 2018
- Vat period: December/January 2019
- Vat period: February/March 2019
- Vat period: April/May 2019

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor JD Tshekedi	828	16 354	17 182
Councillor AK Zalisa	1 745	833	2 578
Councillor J Louw	425	16 483	16 908
Councillor KG Freddie	936	870	1 806
Councillor TE Cross	1 368	5 665	7 033
Councillor Potgieter (100894)	344	-	344
Councillor Potgieter (100899)	1 266	-	1 266
Councillor MA Mochane	4 214	135 138	139 352
	11 126	**175 343**	**186 469**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor JD Tshekedi	820	16 308	17 128
Councillor AK Zalisa	921	6 964	7 885
Councillor J Louw	1 052	3 558	4 610
Councillor SS Peterson	1 435	20 424	21 859
Councillor TE Cross	1 264	3 653	4 917
Councillor WJ Potgieter (1000894)	326	-	326
Councillor WJ Potgieter (1000899)	1 351	-	1 351
	7 169	**50 907**	**58 076**

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

Non-compliance with MFMA sec 65(2)(e)

Money owing by the municipality was not paid within 30 days of receiving the relevant invoice overstatement mainly due to lack of proper supporting documents and late submission of invoices by the suppliers.

49. Deviation Section 36(2) Supply Chain Management Regulations

Reason for deviation:	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000
Sole provider	82 508	102 757	-
Emergency	33 317	580 498	808 382
Other	83 459	32 000	200 000
	199 284	**715 255**	**1 008 382**

50. Other non-compliance (MFMA 125(2)(e))

Money owing by the municipality was not always paid within 30 days of receiving an invoice, as required by section 65(2)(e) of the MFMA.

Payments were made without the approval of the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.

Although the accounting officer has taken reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds as required by Section 65(2)(a) of the MFMA, there are still deficiencies.

A credit control and debt collection policy was not fully implemented, as required by section 96(b) of the MSA.

Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.

The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA.

51. Budget differences

Material differences between budget and actual amounts

All variances greater / less than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2019.

X1: Incorrectly budgeted for, budget did not consider prior year figures.

X2: Rental of facilities is difficult to predict as it is based on the frequency of unpredictable events.

X3: Economic climate has impacted on debtors payment percentages and therefore interest levied higher than expected.

X4: License and permits income is difficult to predict as it is based on the frequency of unpredictable events.

X5: Commission not budgeted for..

51. Budget differences (continued)

X6: Other income is difficult to predict as it is based on the frequency of unpredictable events i.e. burial fees etc.

X7: Due to funds being kept in investment accounts longer than expected.

X8: Budgeted figure based on old valuation roll values.

X9: Variance insignificant as below 10%.

X10: Not budgeted for as no information available of how this money is allocated

X11: Variance due to traffic fines from service provide TMT not taking into account on budgeted figures.

X12: Due to salary increase and increase in unplanned overtime.

X13: Variance below 10%, therefore insignificant.

X14: Variance due to low carrying value and low additions.

X15: Not budgeted for as municipality does not d their own asset register.

X16: Interest on trade creditors, mainly interest on Eskom not considered on budgeted figure.

X17: Due to increased debtors balance and reduction in collection rate.

X18: The budgeted figure for bulk purchases incorrectly included VAT and tariff increase applied on amount including VAT.

X19: Included as part of general expenses.

X20: Prior year figure not considered while budgeting.

X21: Cost cutting measures.

X22: Fair value adjustment on investment property not anticipated.

X23: Management did not consider Land and RDP transferred during the year.

X23: Operating lease not correctly budgeted for by management.

X24: Impairment not taken into account on budgeted figure.

X25: Management anticipated that all refunds due to the municipality would be settled.

X26: Management did not take into account the debt impairment on the budgeted figure.

X27: Management did anticipated to have more investments in the bank.

X28: Investment property revalued.

X29: Management did not consider depreciation and impairment on budgeted figure.

X30: Management did not consider amortisation.

X31: No variance.

X32: Management did not consider all creditors on budgeted figure.

X33: Management had anticipated to reduce payable by making refunds during the year.

X34: Variance due to normal staff being excluded as compared to prior year.

51. Budget differences (continued)

X35: No short term provision.

X36: Management had anticipated that the funds would be repaid back.

X37: Budgeted for as part of provisions.

X38: Includes budget for employee benefits obligation.

52. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Property plant and equipment

During the current year management decided to align the accounting policy disclosed in the financial statements for property plant and equipment. The following accounting policies in the annual financial statement were carried at an in appropriate subsequent measurement model

Community assets and Buildings and land subsequent measurement as per accounting policy was revalaution model while we have never performed any revaluation, management would like to align this policy to reflect the measurement of the asset in the financial statements. this will assist us to reflect relevant and reliable information as required for changes in accounting estimates in terms of GRAP 3.

There is no financial effect as there were no revaluation or adjustment to the carrying amount of the asset

Heritage assets

During the current year management decided to align the accounting policy disclosed in the financial statements for property plant and equipment. The following accounting policies in the annual financial statement were carried at an in appropriate subsequent measurement model

Heritagr assets subsequent measurement as per accounting policy was revalaution model while we have never performed any revaluation due to the nature of heritage assets we wouldnt be able to dertimine the active market and value in use of the asset which make this measurement in appropriate, management would like to align this policy to reflect the measurement of the asset in the financial statements. this will assist us to reflect relevant and reliable information as required for changes in accounting estimates in terms of GRAP 3.

There is no financial effect as there were no revaluation or adjustment to the carrying amount of the asset